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## **GOOD GOVERNANCE – IS IT RED TAPE OR A CRITICAL BOARD COMPETENCY?**

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Let's just focus on the business and less on governance! Governance stifles innovation and adds red tape! How often have you heard similar sentiments being expressed?

The reality is that the role of the board has evolved. Global issues and topics such as geopolitics, diversity and inclusivity, climate and nature, and artificial intelligence, have rendered the traditional approach to board oversight as far too narrow. Today, boards must adopt a more stakeholder-inclusive approach and embrace different perspectives when considering strategy development, risk management and operational and ethical oversight. However, good governance has always been a fundamental competency for board members rather than a set of bureaucratic skills which imposes an additional burden on decision-making within the organisation.

The compelling reasons for the skills, knowledge, abilities and behaviours associated with this competency remain the same. They are integral to setting strategic direction, overseeing management and ensuring the overall accountability of the organisation and include:

### **1. Strategic alignment**

Stakeholders are increasingly expecting the sustainable development goals be integrated into corporate strategy. A deep understanding of governance equips board members to effectively align the organisation's strategic objectives with its sense of purpose and its governance structures, ensuring that decisions made at the top support the long-term vision and mission of the organisation, furthermore, converting strategic risks into opportunities.

### **2. Risk management and compliance**

Board members must ensure that the organisation complies with all relevant laws, regulations, and ethical standards. Strong governance competencies enable board members to establish robust frameworks for managing risks and compliance, protecting the organisation from potential legal and reputational damage. Being able to identify emerging risks such as those related to climate change, human rights, cybersecurity and environmental considerations in the supply chain, is essential. Understanding how these risks impact on the organisation's license to operate, is just as important in overseeing the overall integrity and sustainability of the business. In this way, board members can ensure that regulatory compliance is turned into strategic advantage.

### **3. Accountability and transparency**

Effective governance practices foster a culture of accountability and transparency within the organisation. Board members with strong governance skills can implement policies and procedures that ensure actions and decisions can withstand scrutiny and build trust amongst stakeholders.

### **4. Stakeholder engagement**

Board members interact with a wide range of stakeholders, including shareholders, employees, customers, and the community. Strong governance competencies help board members to understand and balance these diverse interests, facilitating effective communication and engagement strategies that support the organisation's objectives and enhance its reputation. Communicating on material issues and being aware of the growing emphasis for improved sustainability and ESG disclosures is vital to fostering the long-term relationships of trust crucial for attracting investment, retaining talent, and maintaining customer loyalty.

### **5. Ethical leadership**

Governance as a core competency underscores the importance of ethical behaviour and integrity at the board level. Board members set the tone for the organisation's ethical culture, and their commitment to good governance practices serves as a model for the rest of the organisation.

### **6. Quality of decision-making**

Knowledge of governance principles improves the quality of decision-making by the board. It ensures that decisions are made based on sound judgment, adequate information, and in consideration of the long-term impact on the organisation and its stakeholders.

### **7. Resource allocation and performance monitoring**

Board members are responsible for overseeing the organisation's financial performance and ensuring the optimal allocation of resources. Governance competencies enable board members to critically evaluate financial reports, strategic initiatives, and performance outcomes, ensuring resources are used efficiently and effectively to achieve organisational goals.

### **8. Crisis management**

Business disruptions can vary in nature, scale and sophistication. In times of crisis, strong governance capabilities allow board members to lead with resilience and make informed decisions that navigate the organisation through challenging periods while maintaining stakeholder confidence. Boards must ensure that incident response and recovery plans to address these various threats are robust and appropriately communicated.

## **9. Succession planning**

Governance involves planning for the future, including leadership succession. Competent board members can ensure that the organisation has a pipeline of skilled leaders ready to take over when current leaders retire or move on, ensuring continuity and stability.

## **10. Adaptability and innovation**

Well-governed businesses are better positioned to adapt to changes and embrace innovation. Strong governance capabilities enable board members to establish robust governance frameworks that include diverse perspectives and encourage open dialogue such that the organisation can quickly respond with creative solutions to market and other environmental changes.

Good governance competencies are essential in nurturing a board (and therefore an organisational) culture which is values-orientated, agile, and which thrives on continuous learning, proactive engagement and a good understanding of the broader societal and environmental requirements. In essence, governance as a core competency for board members is not just about fulfilling legal or procedural duties. It is about providing visionary leadership, ensuring ethical and effective management, and securing the long-term success and sustainability of the organisation.

## **ENDS**

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